

## LIFE INSURANCE: WHEN DO I NEED IT? HOW MUCH DO I NEED?

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***“Questions addressed are what are the two main types of insurance, when are they appropriate, and how much do you need.”***

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.



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The main purpose of life insurance is to replace income. If someone has a premature death and has a family to support, life insurance can bridge the gap. A non-working spouse may need insurance as well, particularly if they are taking care of family at home.



Typical events that trigger the need for life insurance include: getting married, taking on a mortgage, and having children. Once you have life insurance, a change in circumstances may trigger the need to increase the amount of coverage or add an additional policy. The attached article “Life Insurance for Your Stage of Life” talks about how you might handle life insurance as you go through life.

There are two main types of life insurance, term and whole life:

- **Term life insurance** is the type of life insurance we typically recommend, as it is pure insurance and is the most cost-effective option. It fits most situations where you are looking to provide for your family if you die young. With a term policy, you buy insurance for a specific term (15, 20, or 30 years for instance) and specific death benefit (\$500,000, \$1 million, \$2 million, etc.). If you die before the end of the term, the death benefit is paid to the policy beneficiary. The insurance has no cash value. If you outlive the term or cancel the policy, there is no payout. The amount you pay annually for premiums is fixed over the term. The younger you buy life insurance, the less expensive it is. Your health figures into the premium as well. Usually there will be a medical exam when you purchase life insurance.
- **Whole life insurance** policies combine death benefits with investing. The premiums are much higher because you are paying not only for insurance, but you are accumulating a cash benefit as well. Whole life insurance is permanent insurance, it doesn't have a term. It has a guaranteed death benefit, and the cash benefit grows over time. One situation where a whole life policy can be useful is to pay for estate taxes. For someone dying in 2016, estate taxes are only assessed if the estate is worth more than \$5.45 million for an individual or \$10.9 million for a couple. Other uses for whole life insurance include providing for a disabled child after you die, leaving a gift at death, or equaling out an inheritance where one beneficiary inherits a large asset like real estate or a business. Note that because the commission for selling a term insurance policy tends to be low, a life insurance agent may be motivated to sell a client a whole life policy, which pays a much higher commission to the selling agent.

## Our Services

### Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

### Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

### Tax Services:

- Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

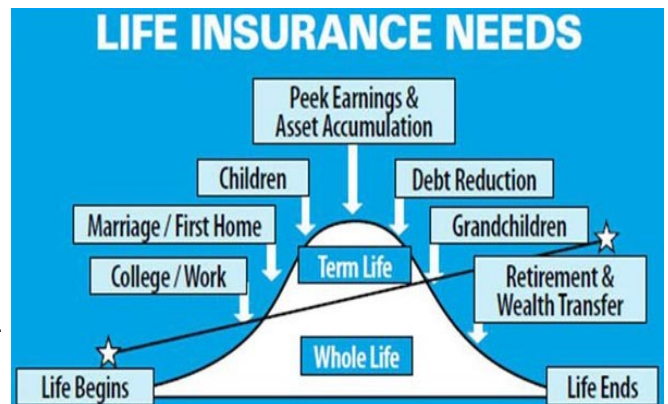
- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

### Other Services:

- MAM has retained several outside experts, whose services are available at no cost to our clients:
  - Medicare Planning— Eileen Hamm of Superior LTC Planning Services, Inc.
  - Long Term Care Planning— Allen Hamm of Superior LTC Planning Services, Inc.

If you have life insurance coverage through work, you might think you are set. Insurance offered as an employee benefit is usually pegged to your salary. A death benefit of 1x or 2x your salary is common. Unfortunately, replacing two years of salary is probably not going to leave your family financially secure. Many employer policies allow you to purchase additional insurance and have it deducted through payroll. Often this can be done without a health exam. Employers' policies tend to use group rates. This is helpful if you have a health issue, but if your health is good, you can usually get better rates outside the workplace. Life insurance bought through your employer may not be portable. The problem is if you change jobs, you may have to find new life insurance. Buying the same coverage might be more difficult if your health circumstances have changed. Being older could cost you more as well.

**How much do you need?** Consider how much it would cost to pay off your debts including your mortgage, send your children to college, provide essential living expenses and fund other goals you have. Net these costs against the survivor's wages, savings, and existing life insurance policies.



Too much life insurance is better than too little. Statistically, women live longer than men, therefore rates are lower for women. Smokers pay a higher rate. Other health issues will bump up your premiums. Usually, once you retire and no longer have any dependents, you no longer have a need for life insurance. There are always exceptions. Special circumstances occur where you may need some insurance beyond your working years.

Some companies sell life insurance for children. Children don't have a responsibility to provide for anyone. If you want to save for your children, use another vehicle, not life insurance.

While we can help you estimate your need for life insurance, McCarthy Asset Management does not sell life insurance policies.